

An open notebook with lined pages is positioned on the left side of the frame, resting on a dark wooden surface. To the right of the notebook, a cup of dark coffee is partially visible, also on the wooden surface. The lighting is warm and focused on the notebook and coffee.

Accounting & Financial Statement Analysis

365  Careers

WHAT IS ACCOUNTING?

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What is accounting?

Accounting is an information science that is used to collect and organize financial data for organizations and individuals.

What type of information?

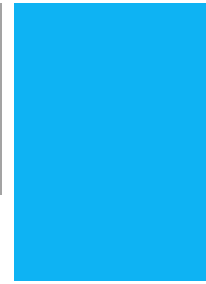
Accounting organizes financial information. It is about money. It is quantitative in nature and measures money. Accounting isn't an abstract science – it is much more practical than theoretical. It's one of those things that you'll learn best by doing.

TYPES OF ACCOUNTING

What types of accounting are there?

- **Bookkeeping:** ensures that financial information has been gathered systematically
- **Financial Accounting:** prepared for the company's ownership, its lenders, financial analysts, and for other external stakeholders
- **Managerial Accounting:** looks into topics like pricing, competition, marginality, budgeting
- **Tax Accounting:** determines the amount of taxes that a company has to pay

THE THREE CORE STATEMENTS



INCOME STATEMENT

Purpose

- *How did the company perform throughout the period under consideration?*
- *Did it produce a profit or a loss?*

BALANCE SHEET

Purpose

- *What does a company owe and own at a certain date?*
- *What is the company's financial position?*

CASH FLOW

Purpose

- *How much cash did the company make during the period under consideration?*
- *Where did the cash come from?*

THE MAIN INCOME STATEMENT ITEMS

THE MAIN INCOME STATEMENT ITEMS

Revenue

Represents an inflow of economic resources. Usually, the main type of revenue for a given firm are its day-to-day sales – customers buying goods that the firm sells.

Other Revenue

Earnings money by performing activities that are outside the core area of operations

Cost of Goods Sold

Expenses that are sustained in order to produce the goods that the firm sells and are directly attributable to the production process

THE MAIN INCOME STATEMENT ITEMS

Selling, General and Administrative

A large category of costs that includes many items that are not directly related to the production process (for ex. Salaries of non-production personnel, management compensation, rent, general expenses, etc.)

D&A (Depreciation & Amortization)

Two accounts that reflect the “using up” of tangible and intangible assets. Depreciation refers to assets of a physical nature, while amortization is the term that is used for intangible assets (goodwill, licenses, copyrights, etc.).

Interest Expenses

The costs that a company bears for receiving financing

THE MAIN BALANCE SHEET ITEMS

Assets

Cash

One of the most important drivers for a business. It shows how much of a firm's assets are cash or can easily be converted into cash. It gives us an idea of the liquidity of the company

Accounts Receivable

When customers buy a firm's products they have to pay for them. And until they do, the firm will register this amount in accounts receivable, which indicates the money owed by customers. The firm registers that it has earned a payment from these customers, but has not yet received the payment.

Inventory

Inventory is the account that shows the value of raw materials, goods that are in the process of elaboration and finished goods that are ready to be sold to customers.

THE MAIN BALANCE SHEET ITEMS

Assets

PP&E (Property, Plant & Equipment)

A group of assets that are vital to business operations. Imagine a production company – it certainly needs plants and equipment in order to transform raw materials into finished products. Usually, this is a hefty investment that cannot be easily liquidated.

THE MAIN BALANCE SHEET ITEMS

Liabilities

Accounts Payable

When a company buys goods from suppliers and does not pay at the time of the purchase, it registers the amount in accounts payable until the actual payment has been made.

Financial Liabilities

A financial liability appears on the Balance Sheet of a company when it receives external financing – which is usually a bank loan.

THE MAIN BALANCE SHEET ITEMS

Owners' Equity

Equity

The firm's capital that it technically "owes" to its owners. This capital would not be repaid to the shareholders, but the company will try to pay them a decent amount of dividends if its business is successful.

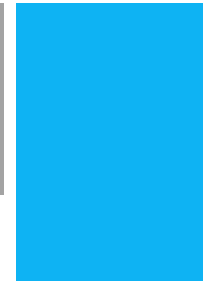
THE MAIN ACCOUNTING EQUATION

The Accounting Equation

The reason it is called a “Balance Sheet” is because assets must equal liabilities and equity. The two sides have to be equal or else a mistake has been made. This principle is known as the Accounting equation and is one of the core principles around which Accounting has been built. Assets are equal to liabilities and equity.

T-ACCOUNTS, CREDITS & DEBITS

T-ACCOUNTS – A USEFUL TOOL



Balance Sheet

Assets

Liabilities & Equity

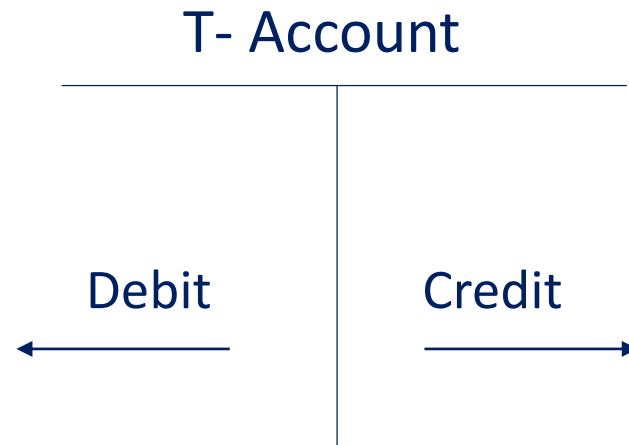
Cash

Trade Payables

Accounts Receivable

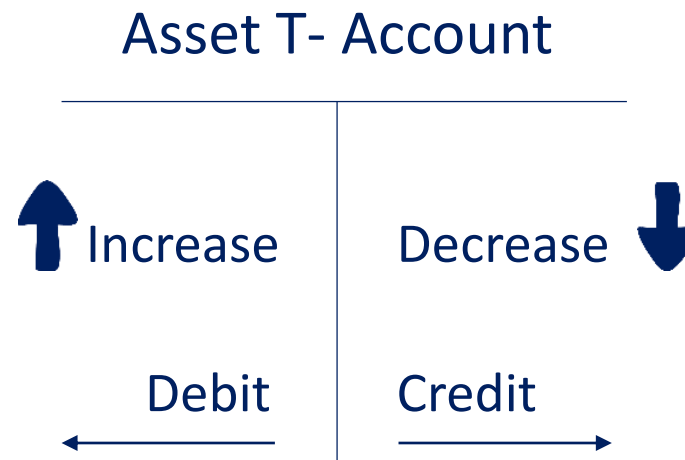
Financial Liabilities

DEBIT MEANS “LEFT”,
CREDIT MEANS “RIGHT”



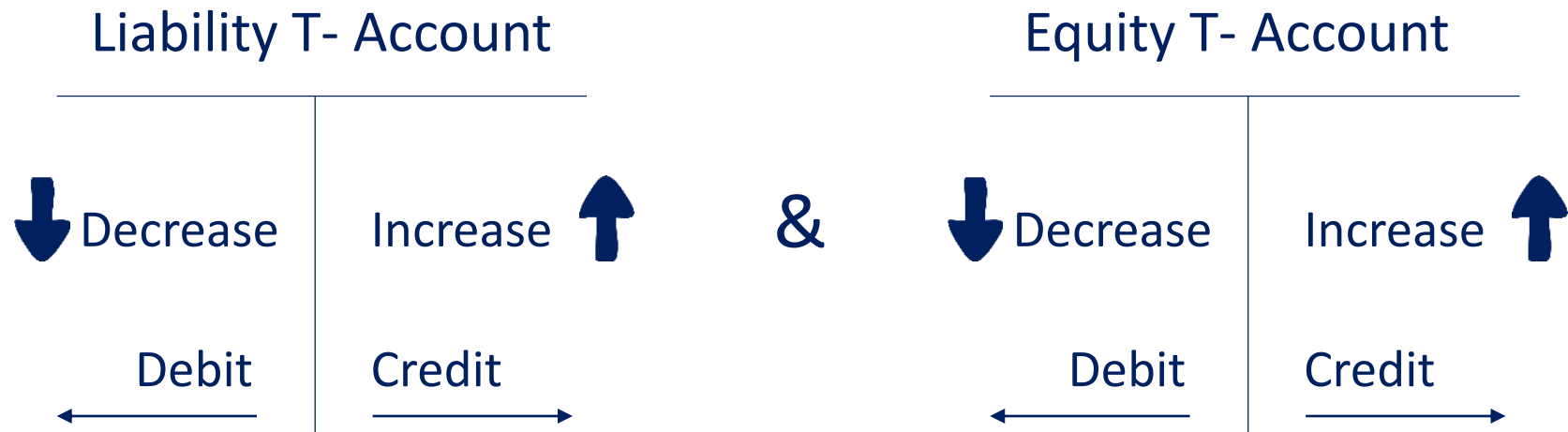
DEBIT MEANS LEFT

...Assets increase to the left



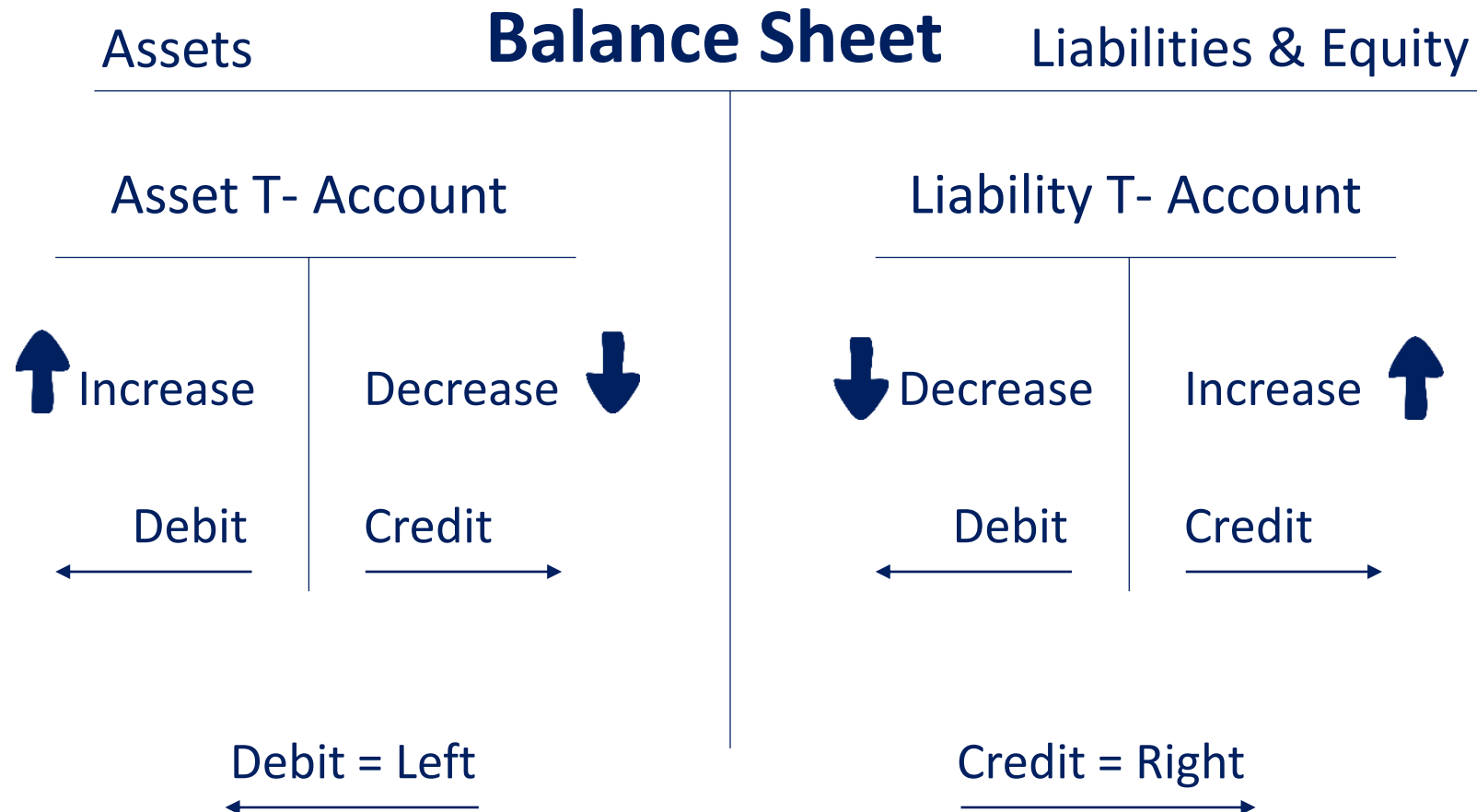
CREDIT MEANS RIGHT

...Liabilities and Equity increase to the right



CREDIT MEANS RIGHT

...Liabilities and Equity increase to the right



INCOME STATEMENT T-ACCOUNTS

WHEN A FIRM MAKES PROFITS...



Company

Revenues – Costs = Profits



Dividends



Shareholders

Balance Sheet

Assets

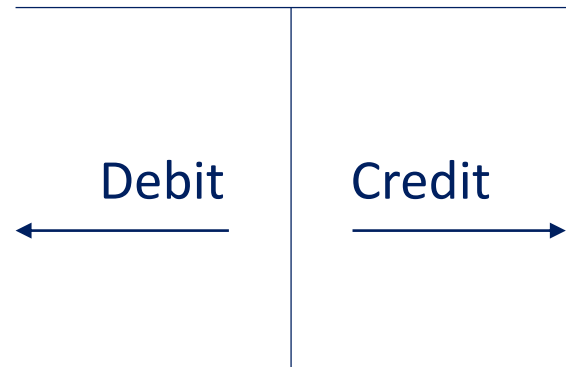
Liabilities

Equity

INCOME STATEMENT T-ACCOUNTS

Debits are on the left, while Credits are on the right side

P&L T- Account



REVENUES

...Revenues behave like Liabilities & Equity

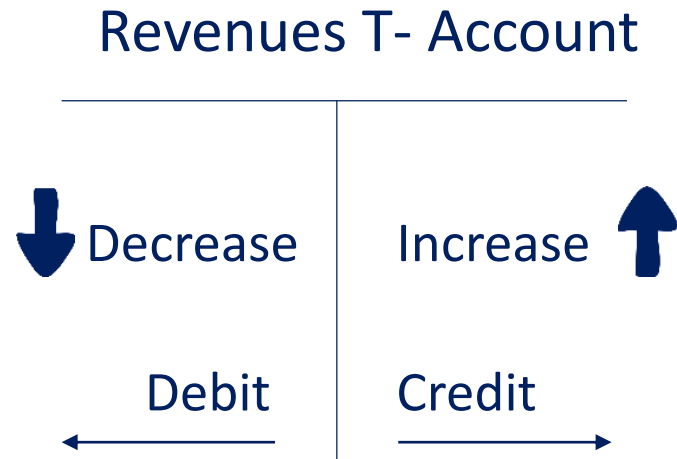
The higher a company's revenues, the higher its profits and equity



REVENUES

...Revenues behave like Liabilities & Equity

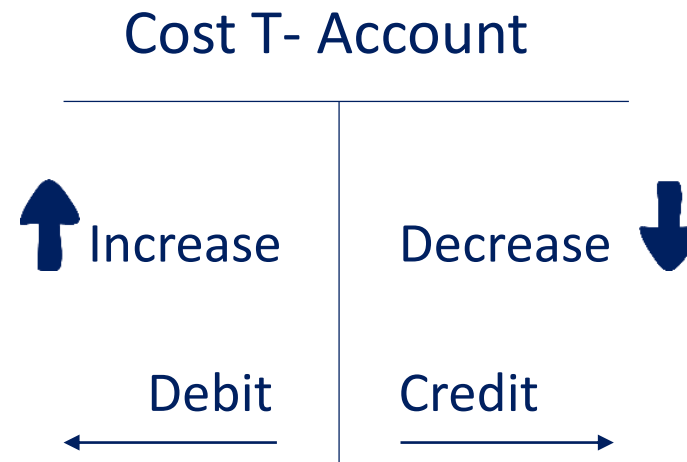
Revenues behave like Liabilities & Equity



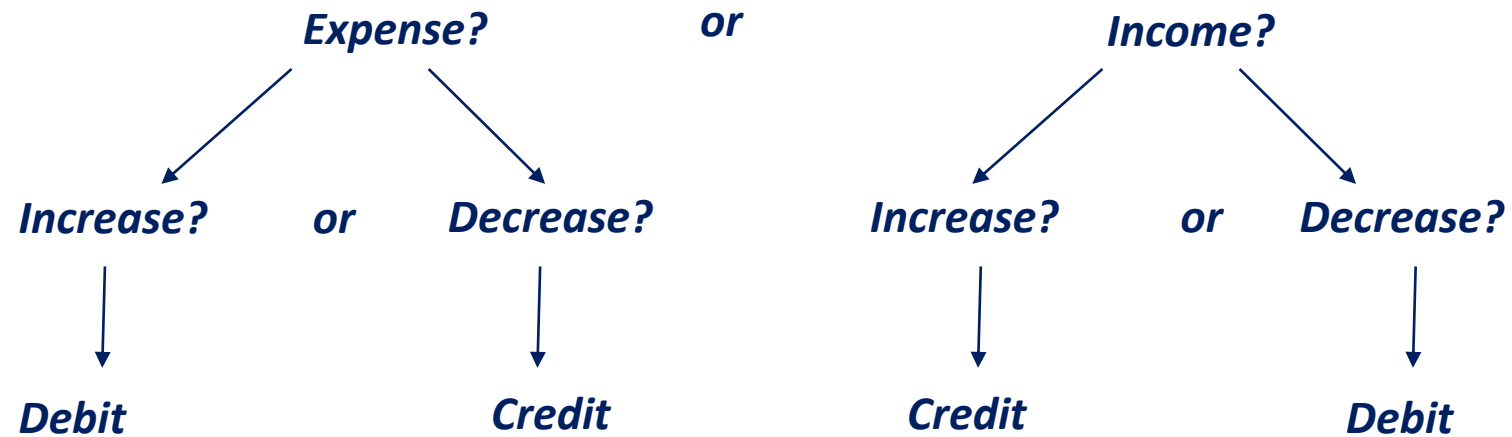
COSTS

...Costs behave like Assets

Costs behave like Assets



A USEFUL SCHEME...



DOUBLE ENTRY BOOKKEEPING

A FIRM OWNS ONE ASSET...

\$ 1,000,000



Cash (Asset)

100% EQUITY FINANCING...

\$ 1,000,000



Equity

BALANCE SHEET...

Assets

Balance Sheet

Liabilities & Equity

Cash



\$ 1,000,000

Equity



\$ 1,000,000

ACQUISITION OF REAL ESTATE...



BALANCE SHEET...

Assets		Balance Sheet	Liabilities & Equity	
Cash 			Equity 	
\$ 1,000,000	\$ 1,000,000			\$ 1,000,000
Real Estate 				
\$ 1,000,000				

THE FIRM RECEIVES A BANK LOAN

\$ 500,000



Bank Loan

BALANCE SHEET...

Assets		Balance Sheet	Liabilities & Equity	
Cash 			Equity 	
\$ 1,000,000	\$ 1,000,000			\$ 1,000,000
\$ 500,000				
Real Estate 			Bank Loans 	
\$ 1,000,000				\$ 500,000